

THE PROSPECTIVE MARKET FOR SECURITIZATION  
OF REAL ESTATE IN JAPAN

by

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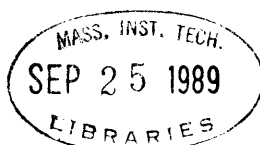
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in partial fulfillment of the requirements of the Degree  
Master of Science in Real Estate Development

**ABSTRACT**

This thesis examines the prospective market for the securitization of real estate in Japan. In the short-term, say the next five years, the prospects are not good. Current economic and market conditions have driven land prices to an all time high and they are likely to remain at these levels. These prices severely constrain new development. Interest rates are low and there is really no need for more complex or sophisticated financial instruments to source the capital markets. Even the tax laws are not now conducive to increased development activity and the inefficient use of property is more than offset by rapid appreciation of land value.

However, change is on the horizon. Government actions to reduce land prices are already in the formative stages. Tax laws will change and the incentive to hold land off the market or continue with inefficient use of land disappear. There will be strong demand for product if all barriers are removed. There should be ample opportunity to fund some of this product through some form of securitization. The long term prospects for securitization of Japanese real estate are good.

A survey of the industry confirms strong interest in the business opportunities that this could present. Experience in overseas markets, particularly the U.S. market has been beneficial and many Japanese companies are hopeful that a domestic market will develop in the near future. However, there are a number of significant prerequisites that will be required, including changes in laws that now place significant barriers to such future opportunities.

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## INTRODUCTION

This thesis examines the prospective market for securitization of real estate in Japan. In order to do so, I will stress the fundamental need for and the shift toward securitization in Japanese real estate markets.

The Japanese real estate market is presently experiencing the serious problem of a sudden and steep increase in land prices. Land prices in commercial districts in the Tokyo Area have tripled and that of residential districts has more than doubled since 1983 [16]. This has caused severe social and economic problems. The most notable is the difficulty buying a residence. The impact can also be felt in the slow development of infrastructure, particularly roads. Finally, escalating land prices have produced a differential in the assets between persons who have properties in urban areas and those who do not. The classless society is being challenged [15].

A decrease in the supply of lands available for residential, commercial and industrial are very evident and the total amount of developable land has been decreasing since 1972. In 1972, the supply of lands peaked at 23,400ha ; by 1987 it had been reduced to 10,300ha [16]. Many land owners have confirmed their interest to continue to hold on to their lands for the purpose of capital gains, thus lands for development will decrease even further.

Recently, several proposals have been made to introduce securitization to the real estate market in Japan. These proposals claim to address problems caused by the escalating land priced. The related impact would then be an increase in the land supply. For example, the Economic Planning Agency has proposed the introduction of Real Estate Investment Trusts (REITs) as a means to increase the supply of land, to restrict speculative investment in land, and to realize the equaling of investment opportunity by reducing the sales price of a unit [30]. Another proposal is to apply securitization to urban development projects in progress [12]. On the other hand, in regard to the disposal of the lands which National Rail Road owns, the use of securitization of real estate is considered one of the means to sell its lands without specifying sales price of lands [26].

In Japan, there are several publications concerning the securitization of real estate in the United States, but there are few that deal with securitization in Japan. In this thesis I would like to deal with the securitized real estate products market in Japan -- that is, the demand for and supply of securitized products in the Japanese market.

#### **A. Methodology**

This thesis depended to a great extent on interviews rather than literature in the field. At first, I interviewed persons in charge of real estate in 10 companies and 2 public

agencies in Japan. I discussed the market situation and basic problems attendant to introducing the securitization of real estate, and prepared a basic framework to examine the issues.

Questionnaire were submitted to 220 companies and 4 public agencies. The purpose of the questionnaire was to directly address the market.

### **B. Constraints of approach**

The two biggest constraints in the study were the time and distance separating the United States, where the study was done, from Japan. The thesis reflects the limited data that was available in published sources, the interviews and the questionnaire.

### **C. Organization**

In Chapter I, the fundamental need for securitization of real estate in Japan, especially the implications of restricted land supply, is examined. Through the analysis of statistical data, I examine the economic factors which have brought about these high land price and speculate on future changes that may affect these factors.

In Chapter II, the results of the questionnaire are summarized and analyzed. Through this analysis, the real estate industry's needs for, and opinions of, securitization of real estate are examined.

Finally, in Chapter III, the desirable attribution of

securitized real estate products and the structure of this market are discussed, as are the ways in which changes in the economic situation will affect the applicability of securitization of real estate.

The main purpose of the questionnaire contained in the Technical Appendix was to gain some understanding of how the real estate business viewed the prospects for securitization, and in what firms they saw the opportunities emerge. While the format sought opinions, it did provide a reasonable assessment of the current attitudes to the applicability of securitization to Japanese real estate markets.



## **CHAPTER I**

### **Fundamental Need for Securitization of Real Estate in Japan**

#### **A. The present state :**

##### **1. Market**

It will be difficult to create a market for securitization of Japanese real estate in the short term. There does not appear to be a strong need for it, and I can point to three main reasons: First, land owners have a strong preference to hold onto their properties because of the historic and steady increase in land prices: Second, continued low interest rates mitigate against many of the advantages of securitization; Finally, the absence of a system of financing for commercial properties currently leaves limited opportunity for the introduction of more complex financial instruments.

##### **(1) The strong tendency to hold land**

In a survey of public opinion concerning land problems carried out by the Prime Minister's Office in June 1988 (Exhibit 1), 67.3% of residents in the Tokyo Area, 80.3% in the Osaka Area and 74.9% of the National Area thought that land prices would continue to rise. Only 15% in the Tokyo Area, 7.1% in the Osaka Area and 10.4% in the National Area responded that they would not rise any more. In looking back to December, 1970, 64.1% of the Tokyo Metropolitan Area and

62.3% of the Kyoto-Osaka-Kobe Area residents responded that land prices would rise and 7.7% and 7.9%, respectively did not think so. Surveys show that most people still believe that land prices will continue to rise and the ratio of such people has increased over the past 18 years.

# EXHIBIT 1

## Prospect of Land Price

Do you believe that land prices will continue to increase?

|                 | It's  |          |       | No      |
|-----------------|-------|----------|-------|---------|
| June, 1988      | Yes   | not sure | No    | comment |
| National Level  | 74.9% | 9.0%     | 10.4% | 5.7%    |
| Tokyo Area      | 67.3% | 12.4%    | 15.0% | 5.2%    |
| Osaka Area      | 80.3% | 8.5%     | 7.1%  | 4.1%    |
| December, 1960  |       |          |       |         |
| Tokyo City Area | 64.1% | 23.3%    | 7.7%  | 4.9%    |
| Osaka City Area | 62.3% | 23.5%    | 7.9%  | 6.2%    |

(Source : The Prime Minister's Office, cited in Kokudo Riyou Hakusho)

As we can see in the Exhibit 2, in 1986 and 1987 land prices in commercial districts and residential districts in the Tokyo Area rose by 138.8% and 105.1%, respectively.

# EXHIBIT 2

## Fluctuation Rate in Posted Land Price in Japan Per Year

| Area                  | 1970 | 1971 | 1972 | 1973 | 1974  | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|-----------------------|------|------|------|------|-------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Tokyo Area            | 19.9 | 15.1 | 35.9 | 35.4 | -11.5 | 0.6  | 1.7  | 3.5  | 8.8  | 18.3 | 14.1 | 7.4  | 4.1  | 2.2  | 1.7  | 3.0  | 21.5 | 68.8 |
| Osaka Area            | 22.0 | 14.9 | 30.1 | 31.8 | -9.3  | 0.5  | 1.6  | 2.8  | 6.8  | 13.5 | 12.6 | 9.3  | 5.3  | 3.6  | 3.0  | 2.6  | 3.4  | 18.6 |
| Nagoya Area           | 18.5 | 14.6 | 30.1 | 29.0 | -8.8  | 0.7  | 2.6  | 4.1  | 8.2  | 14.2 | 12.3 | 7.9  | 4.5  | 2.4  | 1.6  | 1.4  | 1.6  | 7.3  |
| Average of Three Area | 20.3 | 15.0 | 33.7 | 33.9 | -10.4 | 0.6  | 1.8  | 3.4  | 8.1  | 16.3 | 13.4 | 8.0  | 4.5  | 2.6  | 2.0  | 2.7  | 13.7 | 46.6 |
| Average of Local Area |      | 11.0 | 28.6 | 43.5 | -7.5  | 0.9  | 2.1  | 3.2  | 5.1  | 9.0  | 9.8  | 8.5  | 5.6  | 3.5  | 2.4  | 1.7  | 1.2  | 1.9  |
| National Average      | 20.3 | 14.8 | 33.3 | 34.7 | -8.9  | 0.8  | 1.9  | 3.3  | 6.5  | 12.3 | 11.4 | 8.3  | 5.1  | 3.0  | 2.2  | 2.2  | 7.6  | 25.0 |
| Tokyo Area            | 8.0  | 7.4  | 28.0 | 23.7 | -10.0 | 0.1  | 0.5  | 1.1  | 4.3  | 10.8 | 8.3  | 5.7  | 4.2  | 5.5  | 7.2  | 12.5 | 48.2 | 61.1 |
| Osaka Area            | 7.0  | 6.1  | 21.5 | 22.7 | -9.4  | 0.1  | 1.0  | 1.5  | 3.8  | 8.7  | 8.5  | 7.1  | 4.1  | 3.9  | 5.0  | 7.0  | 13.2 | 37.2 |
| Nagoya Area           | 5.0  | 3.0  | 14.3 | 18.1 | -10.3 | 0.2  | 0.8  | 1.6  | 3.7  | 7.1  | 6.6  | 5.4  | 3.5  | 2.7  | 2.7  | 3.3  | 6.4  | 16.8 |
| Average of Three Area | 7.4  | 6.5  | 24.1 | 22.8 | -9.9  | 0.1  | 0.7  | 1.3  | 4.1  | 9.6  | 8.0  | 6.0  | 4.0  | 4.5  | 5.8  | 9.2  | 30.1 | 46.6 |
| Average of Local Area |      | 5.5  | 19.8 | 28.7 | -8.9  | 0.2  | 0.8  | 1.3  | 2.5  | 4.9  | 5.9  | 5.7  | 4.0  | 2.8  | 2.6  | 2.5  | 2.9  | 5.4  |
| National Average      | 7.4  | 6.4  | 23.7 | 23.6 | -9.3  | 0.1  | 0.8  | 1.3  | 3.1  | 6.7  | 6.7  | 5.8  | 4.0  | 3.5  | 3.8  | 5.1  | 13.4 | 21.9 |

he National Land Agency)

## Posted Land Price Index and Customer Price Index (1985 = 100)

|                              | 1975 | 1980 | 1983 | 1984 | 1985  | 1986  | 1987  |
|------------------------------|------|------|------|------|-------|-------|-------|
| d Price Index (Residential)* | 54.1 | 83.6 | 95.5 | 97.1 | 100.0 | 121.5 | 204.9 |
| d Price Index (Commercial)*  | 56.1 | 71.4 | 82.9 | 88.9 | 100.0 | 148.2 | 238.8 |
| rice Index                   | 63.3 | 87.3 | 95.8 | 98.0 | 100.0 | 100.6 | 100.7 |

ea  
he National Land Agency and the General Affairs Agency)

Seen over a long period, commercial land prices in the Tokyo Area rose by about 67% and residential prices by about 81% in the ten years from 1975 to 1984. The fluctuation rates in land prices were moderate over a twenty years period. As Exhibit 2 shows, commercial land price in the Tokyo Area escalated from 1985 to 1987. 1987 was the peak (up 61.1%). In 1988, prices showed a stable increase and in parts of this area, (Tokyo Metropolis and Kanagawa Prefecture), they actually decreased. However, the decrease was small and the land price seems to have stabilized at the high levels. Moreover, in the outskirts of the Tokyo Metropolitan Area, land prices are still increasing. Residential land prices in the Tokyo Area have moved at the same rate as those for commercial land. They started to increase in 1986, peaked (68.8% up) in 1987, and returned to a more stable increase of 0.3% in 1988. In the Tokyo Metropolitan Area, the movement of land prices shows two different patterns. One is in the price of land with a good location. For example, a commercial site facing a road with a width of more than 12m is able to use its regulated Floor Area Ratio (FAR). Such lands have not decreased as much in their prices. The other pattern is that of land with secondary locations where prices have decreased over 10% [20] [27].

Land prices in the Osaka Area and the Nagoya Area have the same movement as those of the Tokyo Area, but those of the

Osaka Area trail by one year, and those of the Nagoya Area trail by two years, in comparison to those of the Tokyo Area.

On the other hand, land prices in the Local Areas (the area more than the Tokyo, Osaka and Nagoya Area) are stable and their fluctuation rates are moderate. Between 1986 and 1988, most Japanese firmly believed that land would increase in price. As a result, they continued to hold on to land and wait for appreciation rather than sell. In a period of high inflation in land prices, holding on to land is usually a wise policy, if you can afford to do so.

## **(2) The Low Interest Rate**

Between February, 1987 and May, 1989, the bank rate in Japan was a very low 2.5% [6] [9]. Under the Japanese Government's easy-money policy, developers have not been encouraged to use securitization as a resource of capital for real estate. They could always get low cost money from indirect money markets and banks.

## **(3) Present Japanese financing system**

Japanese banks always lend money as corporate debt rather than on a project or site specific basis. Non-recourse project financing for commercial real estate is not used in Japan. The restructuring of existing real estate capital markets in Japan will be a prerequisite for the introduction of more complex financial instruments such as securities [21].

## **(4) Conclusion**

In the present market, land owners are reluctant to sell their properties, developers do not need to access to the equity market i.e. securities, to raise money for their projects, and a system of project financing that could accommodate securitization does not yet exist. There is no clear need for securitization at the present time.

## **2. Factors affecting the today's market situation**

I would first like to describe the causes which have affected the movements in land prices over the last two or three years.

### **(1) The sudden and sharp decline of the interest rates in 1986**

On January 30, 1986, the Bank of Japan reduced the bank rate from 5.0% to 4.5% on the basis of "The Plaza Agreement" of September, 1985 [6]. Just after the Plaza Agreement, the call rate (no condition and average per month), which represents free interest rates on the short money market and sensitively reflects the general financial situation and fluctuates, had risen from a 6% level to an 8% level [7]. This reduction in the bank rate caused the call rate to fall to 4% for a 3-month period. After that, the bank rate was reduced to 4.0% (March 1986), 3.5% (April, 1986), 3.0% (November, 1986) and finally 2.5% (February, 1987) in accordance with the easy-money policy of the Bank of Japan. The call rate also fell to a 3% level in late 1986. This low

interest rate situation continued until the Bank of Japan rose its rates to 3.25% on June 30, 1989 [6] [9].

Real estate is priced as a function of the net present value of the cash flows produced by a property. If the cash flow is constant and infinite, the price of real estate is determined by the cash flow per year divided by the discount rate. The call rate can be used as a discount rate since it represents a short-term market rate of interest.

The following are the land prices calculated under call rates of 8% and then 4%.

Under a call rate of 8% and a cash flow each year of 1,000,000 Yen.

$$1,000,000 / 0.08 = 12,500,000 \text{ Yen.}$$

Under a call rate of 4% and a cash flow each year of 1,000,000 Yen.

$$1,000,000 / 0.04 = 25,000,000 \text{ Yen.}$$

As seen in the above calculation, land prices double when the discount rate is reduced by one half.

The escalation of land prices in the urban areas in Japan started in 1986 and coincided with the sudden and sharp fall of interest rates. This change of interest rates is one of the crucial factors which caused the increase in land prices.

## **(2) The increasing demand for office space in Tokyo.**

The second factor is a strong need for office space in the three large metropolitan areas, especially in the heart of

the Tokyo Area itself.

As seen in Exhibit 3, the accumulation of industrial and financial services in the Tokyo Area is in progress. Those functions related to finance, international business and information are especially remarkable.

### EXHIBIT 3

Example of several functions in the three large urban areas that illustrate market trends for office space

|                                                        | Year  | Tokyo<br>Area | Kansai<br>Area | Nagoya<br>Area | Total |
|--------------------------------------------------------|-------|---------------|----------------|----------------|-------|
|                                                        | ----- | -----         | -----          | -----          | ----- |
| The amount of<br>shipping of<br>industrial<br>products | 1970  | 29.7%         | 20.4%          | 12.6%          | 62.7% |
|                                                        | 1975  | 26.9%         | 17.9%          | 12.7%          | 57.5% |
|                                                        | 1980  | 26.6%         | 16.5%          | 13.2%          | 56.3% |
|                                                        | 1985  | 25.6%         | 15.8%          | 14.3%          | 55.7% |
|                                                        | 1987  | 25.1%         | 15.6%          | 14.7%          | 55.4% |
| The amount of<br>wholesale<br>activity                 | 1970  | 38.9%         | 25.1%          | 10.9%          | 74.9% |
|                                                        | 1976  | 38.8%         | 22.1%          | 9.8%           | 70.7% |
|                                                        | 1979  | 27.7%         | 21.4%          | 10.1%          | 59.2% |
|                                                        | 1985  | 41.5%         | 19.5%          | 10.1%          | 71.1% |
|                                                        | 1970  | 48.1%         | 20.2%          | 7.4%           | 75.7% |



|                                         |      |       |       |      |       |
|-----------------------------------------|------|-------|-------|------|-------|
| The number of<br>university<br>students | 1975 | 45.3% | 21.0% | 7.7% | 74.0% |
|                                         | 1980 | 42.2% | 20.5% | 7.8% | 70.5% |
|                                         | 1985 | 41.7% | 20.1% | 7.8% | 69.6% |
|                                         | 1988 | 40.5% | 19.8% | 8.1% | 68.4% |

|                                          |      |       |       |      |       |
|------------------------------------------|------|-------|-------|------|-------|
| The number of<br>company<br>headquarters | 1970 | 59.5% | 22.1% | 5.8% | 87.4% |
|                                          | 1975 | 58.4% | 20.1% | 5.4% | 83.9% |
|                                          | 1980 | 59.4% | 19.1% | 5.5% | 84.0% |
|                                          | 1985 | 59.4% | 18.3% | 5.5% | 83.2% |
|                                          | 1986 | 59.1% | 18.3% | 5.6% | 83.0% |

|                                 |      |       |       |      |       |
|---------------------------------|------|-------|-------|------|-------|
| the amount of<br>bill clearings | 1970 | 53.2% | 24.3% | 8.0% | 85.5% |
|                                 | 1975 | 57.9% | 22.0% | 6.8% | 86.7% |
|                                 | 1980 | 66.9% | 17.3% | 5.8% | 90.0% |
|                                 | 1985 | 78.9% | 11.5% | 3.6% | 94.0% |
|                                 | 1987 | 84.8% | 8.7%  | 2.6% | 96.1% |

|                                       |      |       |       |      |       |
|---------------------------------------|------|-------|-------|------|-------|
| the number of<br>foreign<br>companies | 1970 | 84.4% | 13.2% | 1.5% | 99.1% |
|                                       | 1975 | 86.4% | 9.3%  | 0.5% | 96.2% |
|                                       | 1980 | 86.6% | 8.0%  | 0.8% | 95.4% |
|                                       | 1985 | 87.6% | 7.7%  | 0.7% | 96.0% |
|                                       | 1986 | 88.6% | 7.0%  | 0.6% | 96.2% |

|               |      |       |       |      |       |
|---------------|------|-------|-------|------|-------|
| the number of | 1972 | 53.2% | 17.8% | 6.0% | 77.0% |
| employees in  | 1975 | 53.5% | 16.8% | 5.2% | 75.5% |
| information   | 1981 | 55.9% | 16.3% | 5.0% | 77.2% |
| service       | 1986 | 57.5% | 14.2% | 4.9% | 76.6% |
| industries    |      |       |       |      |       |
|               | 1970 | 23.0% | 14.8% | 8.3% | 46.1% |
|               | 1975 | 24.2% | 15.0% | 8.4% | 47.6% |
| population    | 1980 | 24.5% | 14.8% | 8.4% | 47.8% |
|               | 1985 | 25.0% | 14.7% | 8.5% | 48.2% |
|               | 1988 | 25.4% | 14.7% | 8.5% | 48.6% |

(Source: Ministry of International Trade and Industry, Ministry of Education, National Tax Administration, Bank of Japan, and General Affairs Agency, cited in Kokudo Riyō Hakusho)

In the Tokyo Area, we find more than 80% of the bill clearing and more than 50% of the company headquarters, as well as more than half of the employees in the information service industries. These figures indicate that the Tokyo Area is increasing in its importance as a national, as well as an international financial center, and that many service companies, Japan's fastest growing industries, now gather in the Tokyo Area. This concentration of so much industry in the Tokyo Area means not only increased office needs by the

service industries, but also an increase in office space per person caused by progress in office automation for the highly advanced financial, service and other businesses and improvements in the work environment. From 1975 to 1986, the population of workers in the Tokyo Metropolitan Area increased by 1.13% per year, while that of service industries increased 3.59% and financial and real estate employment growth was 1.44%. From 1986 to 1990, the number of workers will increase by 2.27%, while the labor needs for service industries and financial and real estate businesses will increase by 3.80% and 4.42% respectively [22].

### **(3) An easy-money policy during 1986 and 1987**

In January, 1986, the Japanese Government changed its financial policy from a "tight -money" to an "easy-money" policy in order to stimulate a domestic demand [9]. This was intended to reduce the exchange rate of the U.S. dollar in relation to the Japanese Yen. In 1986 and 1987, the money supply ( $M_2 + CD$ ) increased 10% or more over the previous year [6]. In this easy money situation, new loans for equipment in the construction and real estate industries increased much more than that of all other industries. They were 15.6%, 35.3% and 7.6% in 1986 and 39.0%, 51.7% and 31.4% in 1987, respectively. These funds promoted investment in real estate properties. Moreover, the low interest rate at that time also reduced costs.

#### **(4) Taxation System**

There are several special tax laws which offer advantages to real estate. At first, escalating in land prices was limited to the commercial area in the heart of Tokyo. But two special tax rules caused hikes in land prices in residential and commercial areas on the outskirts of Tokyo, as well as in suburban residential areas. These rules enabled the sellers of residential or commercial properties to defer their capital gains tax when they bought other properties with the proceeds of the sale in accordance with statutory conditions and processes [3] [4]. Before the hike in land prices, many owners of small and low-rise buildings used their properties for both residential and/or business purposes. In the process of assembling several small properties to build large office buildings in the heart of Tokyo, these people sold their properties to developers and then bought residences and office buildings, or apartments to rent, so as to satisfy the tax regulation's requirements. Because there were strong demands for office space in the old location, people sold their properties for very high prices and realized enormous capital gains. When the landowners selected a substitute property, its location was a more important criteria than its price because they had an unexpected profit, and they needed to buy substitute properties within the regulated terms. Such substitute properties in desirable locations could then expect

big capital gains five or ten years after they had been purchased. As a result, the hike in land prices in the heart of Tokyo expanded to its suburbs, not only in the commercial districts but also in residential sections. Furthermore, this movement spread to the Osaka Area and the Nagoya Area over a certain period of time. (In about one year from Tokyo to Osaka and then from Osaka to Nagoya Area, as shown by Exhibit 2). Also, strong demands for rental office buildings and apartments in suburban areas increased land prices in other principal cities such as Fukuoka, Sapporo, Sendai or Hiroshima [16]. There, the transaction of land was done not on the basis of its price per  $3.3\text{m}^2$ \* but on that of its gross price and yield for investment, linking the interest rate level at the time of transaction. Through those processes, not only did land prices increase, but the separation between ownership and utilization of property also became very popular in Japan [25].

Inheritance tax also promoted land speculation. The Japanese land assessment process for inheritance taxes attracted elderly rich people and their prospective heirs and heiresses. Because the land value was estimated to be worth much less than its market price, the elderly rich invested in

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\*  $3.3\text{m}^2$  is equal to 1 tsubo. "Tsubo" is the traditional measure for land and floor area in Japan.

land as a shelter from inheritance taxes. This tax allowance is another important factor in the increasing demand for land.

#### **(5) The lease Act and the Building Lease Act**

The Land Lease Act and the Building Lease Act are meant to protect the lessees. These acts require the lessor to provide justifiable grounds for evicting their lessees or tenants from their properties [1] [10]. The only justifiable ground is that the lessor needs it for personal use. The result is that once property is leased, proprietors can no longer use it for themselves. For this reason, most land owners have lost their will to use their idle properties effectively and if they rent their properties, they require a very expensive premium for a lease. Since such an expensive premium makes it difficult for a lessee or tenant to find available rental properties after an evacuation from their present address, they demand high compensation for their removal. The existence of a expensive premiums and high compensation makes the problem more difficult and complicated [14]. This condition is a further incentive not to sell a property.

#### **B. Today's market needs**

In spite of this market situation, real estate companies and developers must create product. The vehicle they must often use to cope with land price is the "subdivision" of real estate properties. The price of assembling land for one

project can be so expensive that developers who can afford such high-priced properties are few. Developers must fund ways to reduce the gross price in order to reach the target market for their product. They do this by subdividing the project into smaller units of interest. There are two main ways to do this: one is a common interest trust system, and the other is a partnership system similar to used in the United States [30].

Subdivision has an another important purpose. Developers use it to control properties they have sold to investors. Both methods of subdivision are intended to sell properties with provision for a buy-back by the developers at some future point. Every developer is well aware of the difficulty of developing or buying projects in the future and thus buy-back is an important incentive.

The whole interest in a property is subdivided into several small interests to enable easy transaction and to realize the separation of owner and user in the same property. Some people say that subdivision is a form of securitization of real estate [30]. However, this method differs from the securitization in one important aspect : This method does not allow for the circulation of a subdivided interest in the market. The Ministry of Finance has a guideline requiring originators not to re-subdivide a unit of common interest, to limit the price of a unit to a minimum 100 million yen, and

not to sell them to other people, as a rule. It would be very difficult for the government to follow the transaction in order to tax and to protect the buyer. Such limitations prevent a developer's products from circulating in the open market. They are not equities.

**C. Middle- and long-term prospect for the securitization of real estate.**

If we look at Japanese real estate markets in the short-term, it is difficult to conceive of the need for a system of commercial real estate financing. If we then look ahead to the next five or ten years, will the market change? The conditions supporting the present market situation are the land owners' expectations of capital gain, low interest rate levels, and a lack of any system of commercial real estate financing. Those conditions could change.

**1. Forecasts of land prices**

The hike in land prices over the last two or three years was affected by the movement of interest rates, the demand for office space in the Tokyo Area and the taxation system.

The 1989 "Kokudo Riyo Hakusho" (National Land Use White Paper) by the National Land Agency (NLA) reported that land prices in the Tokyo Area are "tranquillized", but price levels are still very high. Currently, they are three times higher in commercial areas, and two times higher in residential areas, than they were in 1983. The NLA also reported that the



Government had taken several urgent countermeasures against increases in land prices, such as the establishment of a watch zone, amendments to the real estate taxation act, and a guide for the rationalization of financial practices concerning real estate and real estate transactions.

In fact, the land price level in the Tokyo Area was stable in 1988. However, land prices in the Tokyo Area will still be affected by low interest rate, as well as the increasing demand for office space.

#### **(1) Interest Rate**

On May 30, 1989, the Bank of Japan raised the bank rates from 2.5% to 3.25%. The rise in the bank rate occurred after a lapse of nine years and two months. Because the previous bank rate of 2.5% was historically and internationally at the lowest level, this rate was considered to be the bottom and would not fall below 2.5%. This event implies that the Bank of Japan changed its financial policy from an easy-money to a tight-money policy [9]. However, the Bank of Japan, the central bank which had experienced the New York Stock Exchange's Black Monday, would not raise the interest rate level further. An excessive rise in interest rates would cause a stock market crash and a possible recession. It is likely that the interest rate level will continue to be stable or will increase only by a very small amount, if any. Because the money market in Japan has already discounted the rise in

the bank rate, the asset price will not decrease as much.

However, a rise in interest rates would bring a decrease in land prices. Actually, the call rate increased from 4.2% on the fourth week of May to 4.7% on the first week of June, 1989 [28].

## **(2) Strong Demands for Office Space in Tokyo**

Tokyo has been increasing its importance and scale as a center for the international financial market. The aggregate market value of stocks listed on the Tokyo Stock Exchange reached 2,978.2 billion dollars, as of the end of 1987. This value was larger than that of 2,216.1 billion dollars on the New York Stock Exchange, and the Tokyo Stock Exchange became the largest exchange in the world [22].

Japanese banks' balance of foreign assets and its component ratio to total of foreign assets in the world has also been increasing as seen in Exhibit 4.

On the other hand, Nomura Sogokenkyuujo reported that Tokyo will have an increase in demand for office space of 1,350,000 m<sup>2</sup> per year by the year 2000. Because the actual supply of office space is about 1,400,000 m<sup>2</sup> per year, there should be enough space to meet the demand. However, this report indicated that three points should be considered. First, there is a lack of land supply for new office buildings. Second, there could be an imbalance of demand and supply of land in a specified area because demand is

## EXHIBIT 4

## The Banks' Balance of Foreign Assets

|           | Bank's balance of<br>foreign assets (\$billion) |       |       |  |
|-----------|-------------------------------------------------|-------|-------|--|
|           | 1980                                            | 1985  | 1987  |  |
| London    | 356.3                                           | 589.6 | 771.3 |  |
| New York  | 204                                             | 446.7 | 499   |  |
| Tokyo     | 65.7                                            | 194.6 | 441.6 |  |
| Hong Kong | 38.1                                            | 101.2 | 187.7 |  |

|           | The component ratio |      |      | Growing<br>ratio |
|-----------|---------------------|------|------|------------------|
|           | 1980                | 1985 | 1987 | 1987/80          |
| London    | 19.5                | 19.8 | 19   | 2.2              |
| New York  | 11.2                | 15   | 12.3 | 2.4              |
| Tokyo     | 3.6                 | 6.5  | 10.9 | 6.7              |
| Hong Kong | 2.1                 | 3.4  | 4.6  | 4.9              |

(Source : International Financial Statistics 1988/1, cited in Kokudo Riyou Hakusho 1988), \* City indicate its country.

concentrated in particular areas, and third, there could be an increase in the ratio of office workers to total employees. The second case seems the most likely to occur [22].

The Fudosan Kyoukai (Real Estate Association) reported that 37.7% of the total number of offices and 47.5% of the total employees in these offices in the 23 Special Wards of Tokyo are concentrated at the Central Three Ward (Chiyoda, Chuo and Minato). This tendency will continue. This report was based on a survey of tenants of office buildings owned by its members , most of whom are relatively large companies. The report points out that the demands for office space in the three wards are based on the movement of tenants located in the three wards. About 80% of new tenants after 1984 in these three wards moved within the same area. Because of the location of these offices, it is possible for a company to have centralized management, accumulation of information, good access to transportation, and a good corporate image [23].

Another report said that 63% of financial firms are experiencing a shortage in their present office space and 77% of them feel that they will need additional office space after five or ten years [8]. Another report estimated that foreign financial firms will need 140,000m<sup>2</sup> of additional office space through 1991 [5].

The demands for office space in the heart of Tokyo will be stronger in five or ten years.

It is expected that land prices will be stable at the present high price level for quite same time.

## **2. Other Market Factors**

### **(1) The Separation of Profitability Between Small-scale Buildings and Large-scale Buildings**

There is an earning differential between small-scale buildings and large-scale buildings. Such a differential is seen in both their vacancy rates and their rents for new tenants.

#### **a. Vacancy Rate**

As Exhibit 5 illustrates, the vacancy of office space in Tokyo is very small; the vacancy rate in 1988 is 0.3%.

**EXHIBIT 5**

|          | Office Vacancy Rate (1982 to 1988) |       |       |       |       |       |
|----------|------------------------------------|-------|-------|-------|-------|-------|
|          | 1983                               | 1984  | 1985  | 1986  | 1987  | 1988  |
|          | -----                              | ----- | ----- | ----- | ----- | ----- |
| Tokyo    | 0.7                                | 0.4   | 0.2   | 0.2   | 0.3   | 0.3   |
| Osaka    | 1.5                                | 1.2   | 0.7   | 0.9   | 1.4   | 0.9   |
| Nagoya   | 3.1                                | 1.8   | 1.6   | 1.4   | 2.0   | 1.5   |
| National | 1.6                                | 1.3   | 1.3   | 1.4   | 1.7   | 1.6   |

(Source : Biru Jittai Chousa No Matome (Survey of actual state of Building), Nippon Building Kyoukai Rengoukai (Japan Building association Federation), cited in Kokudo Riyou Hakusho 1989)

However, this survey covers only the building owned by its members who are generally large firms who own relatively large-sized buildings. In another survey, the vacancy rate in the five central wards of Tokyo was 13.2% in 1987 (1.5% in 1986 and 0.6% in 1985). The vacancy rate increased steeply in 1987. This report indicated that this was caused by a rise in rent levels, in addition to an increase in new construction [31].

There is a difference in vacancy rates depending upon the size of the buildings. This is caused by the competition to find tenants among office buildings. Exhibit 6 shows vacancy rates by total floor areas.

#### EXHIBIT 6

##### Vacancy Rate By Total Floor Area

##### Three Central Wards in Tokyo

| Total Floor Area<br>(1,000 m <sup>2</sup> ) | 1984 | 1985 | 1986 | 1987 | 1988 |
|---------------------------------------------|------|------|------|------|------|
| - 0.5                                       | 0.00 | 4.24 | 3.71 | 1.16 | 7.75 |
| 0.5 - 1                                     | 1.02 | 5.44 | 5.38 | 1.10 | 2.28 |
| 1 - 3                                       | 0.47 | 0.12 | 0.03 | 0.73 | 0.39 |
| 3 - 5                                       | 0.17 | 0.19 | 0.28 | 0.04 | 0.89 |
| 5 - 10                                      | 0.11 | 0.09 | 0.02 | 0.12 | 0.16 |
| 10 - 20                                     | 0.78 | 0.07 | 0.14 | 0.05 | 0.17 |
| 20 - 50                                     | 0.14 | 0.10 | 0.06 | 0.11 | 0.08 |
| 50 -                                        | 0.45 | 0.05 | 0.06 | 0.05 | 0.00 |

| Total Floor Area<br>(1,000 m <sup>2</sup> ) | 1984 | 1985 | 1986 | 1987 | 1988 |
|---------------------------------------------|------|------|------|------|------|
| - 0.5                                       | 0.00 | 2.73 | 6.41 | 1.61 | 4.74 |
| 0.5 - 1                                     | 0.65 | 3.34 | 3.20 | 0.74 | 1.73 |
| 1 - 3                                       | 0.48 | 0.23 | 0.84 | 1.15 | 0.78 |
| 3 - 5                                       | 0.37 | 0.64 | 0.41 | 0.36 | 0.72 |
| 5 - 10                                      | 0.09 | 0.07 | 0.57 | 0.08 | 0.25 |
| 10 - 20                                     | 0.63 | 0.06 | 0.36 | 0.10 | 0.18 |
| 20 - 50                                     | 0.28 | 0.09 | 0.10 | 0.13 | 0.07 |
| 50 -                                        | 0.37 | 0.09 | 0.07 | 0.26 | 0.00 |

(Source : Tokyo Building Association, cited in Kokudo Riyō  
Hakusho 1989)

As Exhibit 6 illustrates, the vacancy rate in 1988 beyond 20,000 m<sup>2</sup> is very low but the vacancy rate below 1,000 m<sup>2</sup> is high. There is a distinct difference between floor areas. This seems to indicate that the tenants' requirement, including volume, is stricter than before.

#### **b. Rent**

Rents show the same movement as vacancy rates. A survey of 19 areas in the heart of Tokyo, as of August, 1988, shows that there were areas in which the rent increased 50% over that of 1985 [32]. However, rents have recently varied differently according to the size of office buildings.

Exhibit 7 is survey of rents for newly completed office buildings of more than 500 m<sup>2</sup>, by the Nikkei Real Estate/Tokyo.

# EXHIBIT 7

## Average Rent of Office Buildings Newly Completed in 1987 and 1988

|                            | 1987   | 1988   | 1988/87 |
|----------------------------|--------|--------|---------|
|                            | -----  | -----  | -----   |
| Average Real Rent          | 24,400 | 25,800 | 5.7%    |
| Medium-sized Building      | 20,900 | 22,000 | 5.3%    |
| (less than 100 Tsubo)      |        |        |         |
| Large-sized Building       | 26,200 | 22,500 | -14.1%  |
| (beyond 100 Tsubo)         |        |        |         |
| Extra Large-sized Building | 24,700 | 31,000 | 25.5%   |
| (beyond 200 Tsubo)         |        |        |         |

(Source : Nikkei Real Estate/Tokyo (March 1988 and February 1989))

As Exhibit 7 shows, there is a difference in the increase in rents in proportion to size. The results indicate tenants' preferences for large scale buildings. Companies seem to require large office spaces for office automatization in



accordance with highly advanced business, as well as the extension of the business areas of financial firms and service industries.

### **(3) Review of Taxation System**

#### **a. Countermeasures for Increases in Land Prices**

The Government established the heavy additional tax, effective after October 1, 1987, against capital gains from properties which are owned for less than two years. The tax was designed to restrict speculative transactions [15].

The special rule which enabled the seller of a residence to defer the capital gain tax, upon purchase of new one with the proceeds of sale, was abolished in April, 1988. New special rules were established in its place, with a low-rate, separate tax against the capital gains of the seller [16]. By this special treatment, the seller does not need to use all the income from the transaction for a new residence [29].

#### **b. Increases in the estimate of land value for property taxed and inheritance taxes.**

The estimates of land value, used to assess the property tax, are reviewed every three years. The last review was performed in 1988. According to the announcement of the Tokyo City Council, the average rate of estimate of lands (at 1030 points) for buildings for all uses was up 15.8%, a rate of growth less than that of 1985 (18.5%). However, the rate in the center five wards was up 34.9%, a rate higher than that of

1985 (21.8%). The estimate of the land value in the high-density commercial district of the five wards was 45.1%. The average rate increase was very moderate, while in the heart of Tokyo, especially the high-density commercial district, the rate increase was very high. The cost to hold properties in this area increased steeply [17].

On the other hand, inheritance taxes rose at a very high rate. The average estimate of land in the Tokyo Metropolitan Area rose 62.8% in 1987, 79.2% in 1988, and 26.3% in 1989, while that of Kanagawa rose 75.3% in 1988 and 59.2% in 1989. Because of progressive tax, the increased estimate of land value increased the inheritance taxes of land owners in the Tokyo Area [18] [19].

#### **(4) The movement to review the Land Leasing Act and the Building Leasing Act**

These two laws discourage land owners from using their properties effectively. There are many indications that both laws have recently interfered with real estate development [14].

The Ministry of Justice has a tentative draft to amend the two laws. The main points specify the justifiable grounds to void a lease agreement and establish three types of finite leases. Under the present provisions, the lessor can not evict the lessee from the property without justifiable grounds. Currently, the grounds would be that the lessor

needs the property for one's own use. If the lessor does not have any justifiable grounds, the renewal is automatic. If the amendment is passed, the right of lessor will be strengthened. This could mean that the price of land and the amount of the premium will be reduced [14].

### **3. Conclusion**

#### **(1) Increase in holding risk**

With the above fundamental change in the market, the risk of holding land will increase. The risk will result from the difficulty of achieving a capital gain from a short term holding, the difficulty in rapidly and steeply increasing the income gain, and the increase in the costs of holding lands.

##### **a. The difficulty of achieving capital gains from properties.**

As Exhibit 2 illustrates, the pace of increase in land prices slowed in 1988 in the Tokyo Area. This was a result of not only fluctuations in the market, but also of strong guidance from the Japanese government. The government will not accept any further increases in land prices; rather, they must seek to decrease prices. Land prices have been a social issue and the Diet views them as an urgent problem. The National Land Agency established a watch zone, where the seller and buyer of land with a larger area than the statutory area must report the sale land's price to a local government officer before a transaction. When the government receives

the report, it must review the sales price and if the price is too high, the government can guide the buyer and seller to reduce its price to what it deems a reasonable level [13]. The area over which this regulation is effective is expanding. The statutory area standards are smaller as the areas where land prices increase are expanding further, and hikes in the land price are more serious [11]. As a result, the land prices should stabilize at the present level over two or three years. An owner will then need about ten years to realize attractive capital gains.

#### **b. Income gain**

The rents of office buildings in the heart of Tokyo are now close to ceiling prices and steep increases in rent are not expected. This trend is seen from the increase in vacancy rates and the differentials of rents and rising rates of rent between small-sized buildings and extremely large-sized buildings (see Exhibit 7). In many areas, rents have become so high that some office buildings are starting to reduce their rents [32].

#### **c. Increase in Interest Rate**

As I mentioned in section C. 1. (1) of this thesis, the interest rate level bottomed out by May 30, 1989. It is likely that the interest rate level will continue to be stable, or will increase by only a very small amount. In fact, the call rate is currently increasing following the

rise in the bank rate, as Exhibit 8 reveals.

#### EXHIBIT 8

##### Shift of Call Rate

|                    |          |
|--------------------|----------|
| May (third week)   | 4.21875% |
| May (fourth week)  | 4.21875% |
| June (first week)  | 4.71875% |
| June (second week) | 4.87500% |
| June (third week)  | 4.87500% |
| June (fourth week) | 4.90625% |
| June (fifth week)  | 5.00000% |

(Source :Shuukan Toyo Keizai July 15, 1989)

Because of increasing bank rates, the short-term prime rate rose 0.625% to 4.875%. The long-term prime rate for loans will also increase. Interest rates increases will affect the cost of holding property and developers and land owners may be forced to look for cheaper money.

#### **d. Property tax**

An increase in property tax also increases the cost of holding property. An increase in property tax would have the greatest affect on those who do not use their properties at all, or use them inefficiently. Rent ceilings make it difficult to transfer this increased property tax on to tenants.

#### **e. Decrease in Tax Shelter Effect**

The increase in land cost raises the ratio of land costs to the construction costs of project. This means that the ratio of depreciation of the building to that of the total investment decreases. As a result, the effect of a tax shelter is reduced. On the other hand, the recent increase in the estimate of land values for assessing an inheritance tax make a tax shelter for inheritance taxes very difficult. Because of a rapid rise in estimates and a progressive tax, the amount of inheritance tax will increase steeply. The increase in estimates requires additional debt for tax shelters. This reduces the effect of the investment in real estate which was taken before for the purpose of a tax shelter.

#### **(2) The need to Use Their Own Property to acquire funds**

The increasing cost of holding on to idle properties forces the land owner to make a choice among two alternatives. One is to sell some properties while continuing to hold on to others. However, this is an unlikely choice. Contributing to an increase in the supply of land will only reduce land price in the long run. The other choice is to use the property more efficiently. The amendment of the Land Leasing Act and of the Building Leasing Act will support this decision, if it follows the tentative draft of The Ministry of Justice. Such action could encourage the introduction of

securitization for the following reasons.

**a. The need to build large sized buildings**

Developers and land owners will try to utilize their properties more profitably. In order to do so, they need to create high quality product. The market already distinguishes between a high-quality project and a low-quality one in terms of rent. High-quality refers not only to a project's facilities and location, but also to its size.

**b. The need for more sophisticated development skills**

Developers and owners of small lands sometimes need to assemble small parcels to build large scale buildings. Large scale buildings have many advantages in competition for tenants. As a result of the need for land assembly, many projects will require more time in their planning stage than before. In such a situation developers will be required to have more know-how and skills concerning not only design and planning, but also adjustment of interest rates, financial planning and risk management. Developers and land owners will need more money for their projects and will be required to borrow them over a longer term than before. They may need to sell a part of their interest in the form of equity to continue holding on to properties until capital gains have accumulated. This process could take up to ten years. In such a case, the securitization of real estate could often

advantages to developers and land owners.

**(3) Prospective need for securitization of real estate**

In the future, the argument could be made for securitization of real estate in the Japanese market. The following reason support this view:

- a. As seen above, the need to continue holding on to properties will decline and interest rates will increase slowly. However, system of finance for commercial properties will still be required.
- b. The need to utilize property efficiently will increase. This implies a higher quality of development and an adjustment of interests between land owners in the assembling process. Securitization is one means to affect this adjustment of interest.



## CHAPTER II

### A Summary of Questionnaire Results

#### 1. The subjects and respondents of questionnaire

Questionnaire were sent to 224 companies and 58 responses were received from the following sources:

| Category of Company     | # of<br>Companies(A) | # of Returns(B)<br>(A/B) |
|-------------------------|----------------------|--------------------------|
| Banks                   | 22                   | 7 (31.8%)                |
| Lease & Finance         | 8                    | 3 (37.5%)                |
| Securities              | 13                   | 5 (38.5%)                |
| Real Estate Finance     | 2                    | 1 (50.0%)                |
| Life Insurance          | 14                   | 5 (35.7%)                |
| Casual Insurance        | 14                   | 3 (21.4%)                |
| Foreign Financial       | 10                   | 3 (30.0%)                |
| Trading                 | 9                    | 2 (22.2%)                |
| Public Institutes       | 4                    | 0 ( 0.0%)                |
| Real Estate Development | 74                   | 23 (31.1%)               |
| Construction            | 26                   | 11 (42.3%)               |
| Home Builders           | 6                    | 1 (16.7%)                |
| General Corporations    | 22                   | 5 (22.7%)                |
| -----                   |                      |                          |
| Total                   | 224                  | 70 (31.3%)               |

The return ratio was highest among the Real Estate, Finance, Construction, Security, and Lease and Finance Companies.

There was no return from Public Institutes and only one from

Home Builders. There was no return from city banks except the Bank of Tokyo, a specialized foreign exchange bank. The return from trust banks, which have real estate business sections, was high. This ratio was 71.4%.

## **2. Interest in Securitization of real estate**

Most respondents to the questionnaire have some interest in securitization in the United States (85.7%), but only 25.7% of the firms which are actually involved in securitization in the United States. These results show that most firms have a considerable interest in this area, but have not yet begun to take definitive actions. Their main business location for securitization will likely be in Japan and, so far, securitization of real estate has not existed in Japan. In the United States, respondents have primarily been investors (51.3% of 39 answers) and their involvement in securitization has been passive. This involvement is quite new and has really only entered the study stage.

## **3. Present market situation in Japan**

Most firms claim that the securitization of real estate in Japan does not yet exist, but it is in the planning stage, (68.6%). Most firms consider securitized products to be either a subdivision of real estate equity (80.9% of 47 answers) or mortgage certificates (55.3%). Mortgage certificates are designed to create liquidity for the mortgage market and to facilitate direct financing. This structure

would be similar to pass-through securities in the United States. The subdivision of real estate equity has a similar structure to that of dividing a project into small units of ownership through REITs or Master Limited Partnership (MLP) in the United States. However, it has a very different purpose from REITs or MLP.

Most firms have some interest in the subdivision of real estate equity (72.9%) and about 30% of these firms have already been involved with subdivision. The most desirable form of subdivision is a partnership in the United States.

#### **4. Prospective market for a securitized product**

Most firms answered that investors are important in regard to both debt and equity (45.7% and 54.3%, respectively) and that the originators are similarly important (45.7% and 38.6%, respectively). On the equity side, the developers had many answers (42.9%). Most firms considered their roles to be investors (22.9%) and originators (20.0%) on the debt side, and originators (25.7%) and developer (20.0%) on the equity side. Most firms believe that the supplier and the consumer are both important in securitization and that their roles are the same. Respondents regard securitization as an opportunity for business expansion and especially as a chance to earn development fees. They see development fees as being very profitable. Most firms favored business fees (developers fee : 37.1%, origination fee : 25.7%, and management fee : 20.0%)

over the benefits from the transaction of securitized products in the United States.

## **5. Prospective market structure**

Many firms consider trust banks (62.9%), security companies (44.3%) and developers (38.6%) as the prospective originators or market makers. They also regard securities companies (64.3%), trust banks (57.1%) and developers (38.6%) as the prospective intermediaries in the second market. Many firms believe that these three types of firms will take on important roles in the real estate securities market.

On the other hand, many firms consider wealthy individuals or small or mid-sized enterprise owners (debt side : 72.9% and equity side : 71.4%), and general corporations (debt side : 70.0% and equity side : 68.6%) to be investors in securitized units in both debt and equity. Many firms also regard this group (wealthy individuals or small or mid-sized enterprise owners, debt side : 34.3% and equity side : 48.6%, and general corporation, debt side : 28.6% and equity side : 41.4%) as their own customers for securitized units.

## **6. Attribution of products**

Many firms consider 10 million Yen (27.1%), 100 million Yen (24.3%) and 50 million Yen (17.1%) to be a unit of subdivision that would appeal to the market. About 70% of the firms chose a range from 10 to 100 million Yen. Because the present guideline of the Ministry of Finance is a minimum of

100 million Yen most firms would want to reduce the guideline's minimum unit price.

Many firms consider guarantors and bond rating institutes to be necessary for developing and expanding the real estate securities market. Two-thirds of the firms believe that the bond rating institutes should be required. Because this type of product is new to Japanese, it will be very useful for investors to have an objective criteria for evaluating risk for investment decisions.

## **7. Introducing REITs into Japan**

Half of the firms think that REITs would expand their business opportunities and that their principle merit would be to make the raising capital easier (72.9%). Many firms pointed out that REITs need to have high negotiability (45.7%), some capital gain benefit (41.4%) and a depreciation effect (38.6%). Most firms consider the current legal system too restrictively the introduce REITs into Japan. Two main restrictions are pointed out. One is the conduit; there are no authorized conduits except through trust systems. In the United States, there are several types of conduits, such as trusts, corporations and associations. There needs to be several authorized conduit for REITs. The other is the legal constraint separating the security and banking industries, as well as the separation of trust firms from banks. By adjusting these barriers, the structure of the securities

market will be clearer.

#### **8. Overseas real estate activities and securitization's effects on them**

Overseas activities are now very common in Japan. More than half of the firms surveyed have already invested in overseas real estate. Their investments are concentrated in the United States and Australia, primarily in office buildings and hotels. Firms have developed projects for the purpose of selling them as a securitized product.

#### **9. Conclusion**

Most firms have strong interests in the securitization of real estate, but their actual activities are limited and take place in the United States. Securitization has not existed in Japan and because of this, their movements into this business overseas has been very cautious. If the possibility of realizing securitization of real estate in Japan arises, movement in to this market could speed up immensely.

### CHAPTER III

#### **Conclusion**

Chapter I described the opportunity for securitization of real estate on the part of land owners, especially those who either own unused properties or properties that have not been used in efficient and profitable ways. Under present and past economic conditions, those landowners have been indirectly encouraged to hold on to their properties. There has been little or no incentive to introduce securitization into the Japanese market under present circumstances. However, as the economic situation changes, there will be opportunity to introduce the securitization of real estate as a means for project financing.

Chapter II analyzed the attitudes of the Japanese real estate industry toward securitization through an analysis of the questionnaires. Although there is strong interest in securitization as a means to expand business opportunities, such an expansion would turn their business style from a flow-business into stock-business. Companies are not confident of rapidly introducing securitization. Their current actions are cautious and their present interest is in overseas markets, primarily the United States. However, if the possibility of introducing securitization of real estate is realized, they will move to act in the domestic market.

In this Chapter, I would like to address the needs of the

investor, and the attributes of the products they would prefer and I could not gather the opinions of investors directly, and was restricted to assessing the results of interviews with Japanese companies as well as the Ministry of Construction.

### **1. Source of profits from Real estate**

There are three main sources of income from real estate; income gains, capital gains, and tax shelter benefits. In Japan, because income gains from real estate have been very low, the high capital gains and the tax shelter benefits have compensated for real estate's lack apparent of attractiveness. Most investors have bought real estate for the purpose of capital gains and tax shelter benefits [30]. However, it is very difficult to earn high capital gains in a short time, except from projects which have a high value added component such as large-scale government-sponsored redevelopments projects.

The market separates income gains from tax shelter benefits. Presently, the yield from income gains is very limited due to land cost. Tax shelter benefits, especially for inheritance taxes are the primary investment appeal. However, since the demand to acquire property to reduce inheritance taxes is not large, the impact of this demand will be negligible. The government will not openly promote the benefits of such a tax shelter and, therefore, investors will not get assistance from the government in this regard.



In the future, the real estate investor market must be driven by the demand for the income gains, as well as capital gains or tax shelter benefits.

## **2. Circulation Market**

According to real estate companies, the most important issue concerning the marketing of subdivision of real estate, interests, including securitization of real estate, is a lack of clear guidelines for subdivided or securitized products. Without such guidelines, they can create new such product. The following are the basic guidelines for trust beneficiary certification set forth by the Ministry of Finance (MOF):

1. The extent of subdivision of one project is 50 up to 100 units of investment.
2. The sales price of one unit is a minimum of 100 million Yen.
3. Further subdivision of a trust beneficiary certificate is not permitted.

MOF restricts firms circulating overseas partnership interests in Japan. They also discourage firms from putting the Japanese trust beneficiary certificates into market circulation.

These two guidelines have been developed for three main reasons. The first reason is to protect the investor or customer. The second reason is to track transactions for purpose of assessing tax. The last related to the problem of

defining the ownership of real estate. In Japan, in general, the ownership of real estate is considered to be a right and this means absolute dominance over one's property interest. MOF must ensure that real estate products maintain such absolute dominance. The extent of subdivision, and the sales price of one unit, viewed as being important in distinguishing whether products have such attributes or not.

### **3. Categories of market by the market makers**

The securitized real estate market will basically be categorized to three by the three different market makers: the developers, the trust banks and the security companies. Products created by developers are the most strong properties of real estate, those by security companies are least properties, and those by trust banks are somewhere in between. The products' properties as real estate decrease as the size of market is bigger. However, in Japan the market set by developers and trust banks is large enough to circulate their products. This is a very important difference between the United States and Japan. In the United States, the banks are located within one state; only investment banks and security companies have a national market. Thus, in America, the investment banks play a very important role in the securitization of real estate. Another difference is that In Japan the products that security companies can deal with are listed in the Security Exchange Law [24]. This listing is

very narrow compared to that of the United States. The securitized products of real estate are not listed by law. The government will need to amend this law in order for securities companies to deal with securitized products of real estate. The properties of products will be different by three markets, so it is very important for the government to define the character of real estate securitized products.

#### **4. Conclusion**

Because of the enormous rise in land prices between 1986 and 1987 it has been important to hold on to properties and we do not have needed securitization. However, the fundamentals of Japanese economy are changing. These economic changes will bring the new need for real estate and will require securitization of real estate as a structure for financing to their projects. The recent boom in the subdivision of real estate will surely lead to securitization. I believe that when the stream of subdivision of real estate and the need for more advantageous financial means for projects are joined, the securitization of real estate will be introduced in the Japanese real estate market.

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## **TECHNICAL APPENDIX**

### **Result of Questionnaire**

#### **A. Implementation of Questionnaire**

The questionnaire was sent to 224 Companies, governmental agencies and local governments in Japan and 70 responses were received. The classification of the respondents, by industry is : 7 banks, 5 securities companies, 9 life or casual insurance companies, 3 foreign financial companies, 4 other financial firms, 23 real estate companies, 11 construction companies, one house builder, two trading corporations and 5 general corporations. The results of the questionnaire are as follows:

Q1. Does your company have a direct interest in the securitization of real estate in the United States?

- (1) Strong interest (23 : 47.1%)
- (2) Moderate interest (27 : 38.6%)
- (3) No interest (7 : 10.0%)
- (4) No knowledge of the topic (2 : 2.9%)

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Most Japanese firms are interested in the securitization of real estate in the United States. The percentage of firms who show interest is about 85% when the answers to (1) and (2) are added together.

Q2. What involvement, if any, have you had in the real estate securities market in the United States?

- (1) Actively involved (18 : 25.7%)
- (2) Plan to be involved (10 : 14.3%)
- (3) Interested but no firm plans (33 : 47.1%)**
- (4) Do not expect to be involved (9 : 12.9%)

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The percentage of firms which actually are involved, or plan to be involved, is not high, 40%. About half of the firms have an interest in the real estate securities market, but do not have any concrete plans. Of the firms which are actually involved, or plan to be involved, the most numerous are financial firms.

Q3. If you are involved, or plan to be involved, what form(s) does your investment take? (31 answers)

- (1) Collateralized Mortgage Obligation (CMO) (9 : 29.0%)
  - (2) Mortgage-Backed Bond (9 : 29.0%)
  - (3) Pass-Through Securities (7 : 22.6%)
  - (4) REITs (15 : 48.4%)**
  - (5) Master Limited Partnership (MLP) (13 : 41.9%)
-



Half of the 31 firms which answered this question have invested in REITs. However, investments take different forms and a specific tendency is not evident. It seems they have just started such investments and have not yet set a clear direction or an investment pattern.

Q4. What role(s) does your company play in these investments?  
(39 answers)

- (1) Originator of the security (14 : 35.9%)
- (2) Investor (20 : 51.3%)
- (3) Developer of the asset (14 : 35.9%)
- (4) Others (5 : 12.8%)

---

Among 39 answers, half are involved as investors. This also shows that involvements are in the early stages, or "the study stage".

Q5. What benefit(s) do you receive from these transactions?

- (1) Origination fee (18 : 25.7%)
- (2) Developers fee or profit (26 : 37.1%)
- (3) Management fee (14 : 20.0%)
- (4) Lower interest rate than available in the market (15 : 21.4%)

- (5) Timely fund rising (7 :10.0%)
- (6) Larger amount of fund (8 : 11.4%)
- (7) Others (15 : 21.4%)

Other fee (3), acquisition of know-how (2)

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Most firms regard the U.S. real estate securities market as an opportunity to expand their business. They point to more benefits from fees than from financial transactions. However, they see transactions as a means for gaining financial advantage.

## II. THE FOLLOWING QUESTIONS CONCERN THE PROSPECTS FOR SECURITIZATION OF REAL ESTATE IN THE JAPAN

Q6. What best summarizes your opinion of the prospects for securitization of real estate in Japan?

- (1) Already exists (1 : 1.4%)
- (2) In the planning stage (48 : 68.6%)
- (3) Still in its infancy (11 :15.7%)
- (4) A long way off (10 : 14.3%)

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Two-thirds of the firms hold the view that the securitization of real estate has already started, but so far

their efforts have not reached the point where real estate products are securitized. Almost 85% of the firms believe securitization of real estate will be realized in the near future.

Q7. What involvement, if any, has your company had in the securities market in Japan?

- (1) Already involved (13 : 18.6%)
- (2) Already started to be involved or be on research (14 : 20.0%)
- (3) Actively intended to be involved (18 : 25.7%)
- (4) No interest (23 : 32.9%)**

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Actual involvement is limited, only 18.6%. Only one-third of the firms have no interest in being involved in Japan.

Q8. If you think securitization of real estate has already existed or is in the planning stage, what products do you think have already been securitized in the Japanese market?  
(47 answers)

- (1) Mortgage Certificates (26 : 55.3%)
- (2) Residential Loan Bond (12 : 25.5%)

**(3) Subdivision of Real Estate Equity (38 : 80.9%)**

**(4) Others (3 : 6.4%)**

Q8a. Are you already involved with any of these products?

**(1) Mortgage Certificates (4 : 8.5%)**

**(2) Residential Loan Bond (1 : 2.1%)**

**(3) Subdivision of Real Estate Equity (16 : 34.0%)**

**(4) Others (0 : 0%)**

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The great majority of firms which answered this question view "subdivision of real estate equity" and "Mortgage Certificates" as securitized products. However, firms actually involved are only 34.0% and 8.5%, respectively.

Q9. Do you have any interest in the subdivision of real estate equity?

**(1) Already involved (22 : 31.4%)**

**(2) Strong interest but not get involved (16 : 22.9%)**

**(3) Moderate interest (13 : 18.6%)**

**(4) No interest (15 : 21.4%)**

**(5) No knowledge on the topic (3 : 4.3%)**

Q10. If you are involved, or strongly interested in the

subdivision of real estate equity, what approach do you favor?

- (1) Subdivision of interest in common (34 : 48.6%)
- (2) Subdivision of beneficiary certificate by trust (14 : 20.0%)
- (3) Others (11 : 15.7%)
  - Partnership (6)

About 73% of the firms are interested in subdivision of real estate equity. Most of them would see partnership as the favored form.

Q11. What function(s) or role(s) would you think be necessary in promoting various products for securitization of real estate?

- (1) On the debt side
  - a. Lender of money (17 : 24.3%)
  - b. Borrower of money (17 : 24.3%)
  - c. Originator (32 : 45.7%)**
  - d. Intermediary in the primary market (21 : 30.0%)
  - e. Intermediary in the secondary market (28 : 40.0%)
  - f. Investor (32 : 45.7%)**
  - g. Guarantor (30 : 42.9%)**
  - h. Conduits (12 : 18.6%)

- i. Rating of bond (29 : 41.4%)
- j. Other (3 : 4.3%)
- k. Other (0 : 0%)

(2) On the equity side

- a. Developer (30 : 42.9%)
- b. Originator (27 : 38.6%)
- c. Intermediary in the primary market (22 : 31.4%)
- d. Intermediary in the secondary market (24 : 34.3%)
- e. Investor (38 : 54.3%)**
- f. Guarantor (22 : 31.4%)
- g. Conduits (16 : 22.9%)
- h. Rating of bond (15 : 21.4%)
- i. Others (3 : 4.3%)
- h. Others (0 : 0%)

Q11a. Of these functions or roles, which one(s), if any, are you currently involved in?

(1) Debt Type

- a. Lender of money (4 : 5.7%)
- b. Borrower of money (6 : 8.6%)
- c. Originator (14 : 20.0%)**
- d. Intermediary in the primary market (6 : 8.6%)
- e. Intermediary in the secondary market (6 : 8.6%)

**f. Investor (16 : 22.9%)**

g. Guarantor (1 : 1.4%)

h. Conduits (2 : 2.9%)

i. Rating of bond (0 : 0.0%)

j. Other (1 : 1.4%)

k. Other (1 : 1.4%)

(2) Equity Type

**a. Developer (14 : 20.0%)**

**b. Originator (18 : 25.7%)**

c. Intermediary in the primary market (8 : 11.4%)

d. Intermediary in the secondary market (8 : 11.4%)

e. Investor (13 : 18.6%)

f. Guarantor (4 : 5.7%)

g. Conduits (3 : 4.3%)

h. Rating of bond (0 : 0.0%)

i. Others (1 : 1.4%)

h. Others (2 : 2.9%)

---

The firms consider the role of investor to be important on the debt and equity both side. They place importance in an originator and guarantor on the debt side, while they put the importance on the developer and originator on the equity side. The reason that the investor has an important position on both sides is that suppliers of products always consider the

demands of consumers in Japan. There are two very interesting results here. One is that more firms regard guarantor and rating of bonds to be as important on the debt side as on the equity side. This is because most Japanese consider real estate, especially right of land ownership, to be reliable, low risk, and highly profitable, and they do not need guarantors or bond rating institutes. The other result is that, although they feel the guarantor and rating of bonds are necessary, most of them do not consider these roles part of their business. They do not have much know-how in these business areas.

Q12. What is the appropriate unit of subdivision that would appeal to the market?

- (1) 500,000 Yen (1 : 1.4%)
- (2) 1,000,000 Yen (11 : 15.7%)
- (3) 5,000,000 Yen (5 : 7.1%)
- (4) 10,000,000 Yen (19 : 27.1%)
- (5) 50,000,000 Yen (12 : 17.1%)
- (6) 100,000,000 Yen (17 : 24.3%)
- (7) More than 100,000,000 Yen (3 : 4.3%)

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At present, most products subdivided are being sold by a



units of 100 million Yen each. This unit price is guided by the Japanese Government. However, about 70% of the firms consider 10 million Yen to 100 million Yen to be an appropriate price range. 10 million Yen is the first choice.

Q13. Who are the investor(s) that you would considering for the units?

(1) Debt side

- a. Banks (21 : 30.0%)
- b. Financial institutions (31 : 44.3%)
- c. General corporations (49 : 70.0%)**
- d. Real estate companies (14 : 20.0%)
- e. Pension funds (33 : 47.1%)
- f. Wealthy individuals or small or middle sized enterprise owners (51 : 72.9%)**
- g. Salary men (13 : 18.6%)
- h. Other (1 : 1.4%)
- i. Other (0 : 0.0%)

(2) Equity side

- a. Banks (6 : 8.6%)
- b. Financial institute (19 : 27.1%)
- c. General corporations (48 : 68.6%)**
- d. Real estate companies (34 : 48.6%)

- e. Pension funds (29 : 41.4%)
- f. Wealthy individuals or small or middle sized enterprise owners (50 : 71.4%)**
- g. Salary men (17 : 24.3%)
- h. Other (2 : 2.9%)
- i. Other (0 : 0.0%)

Q13a. Of these investors, which one(s), if any, are your company's prospective customers of these units?

(1) Debt side

- a. Banks (4 : 5.7%)
- b. Financial institutions (9 : 12.9%)
- c. General corporations (20 : 28.6%)**
- d. Real estate companies (3 : 4.3%)
- e. Pension funds (8 : 11.4%)
- f. Wealthy individuals or small or middle sized enterprise owners (24 : 34.3%)**
- g. Salary men (6 : 8.6%)
- h. Other (1 : 1.4%)
- i. Other (0 : 0.0%)

(2) Equity side

- a. Banks (2 : 2.9%)
- b. Financial institute (7 : 10.0%)

- c. General corporations (29 : 41.4%)**
  - d. Real estate companies (13 : 18.6%)
  - e. Pension funds (11 : 15.7%)
  - f. Wealthy individuals or small or middle sized enterprise owners (34 : 48.6%)**
  - g. Salary men (7 : 10.0%)
  - h. Other (0 : 0.0%)
  - i. Other (0 : 0.0%)
- 

About 70% of firms view wealthy people or enterprise owners and general corporations as prospective investors on the equity side. These are the considered customers for most firms (30 % on the debt side and 40 to 50% in the equity side). The reason why the percentage of prospective customers for firms is larger on the equity side than on the debt side is that most firms would feel that the investors would generally prefer the equity type product..

Q14. Who are likely to be the originators or market makers of these units?

- (1) Securities companies (31 : 44.3%)
- (2) Banks (14 : 20.0%)
- (3) Long-term credit banks (17 : 24.3%)
- (4) Trust banks (44 : 62.9%)**

(5) Developers (27 : 38.6%)

(6) Other (1 : 1.4%)

(7) Other (0 : 0.0%)

Most firms view trust banks as the appropriate originator or market maker. Trust banks are presently the only authorized conduit in Japan for this business category and they have dealt with real estate businesses for a long time.

Q15. Who are likely to be the guarantors of these units?

**(1) Government (24 : 34.3%)**

(2) City banks (23 : 32.9%)

(3) Local banks (4 : 5.7%)

(4) Long-term credit banks (19 : 27.1%)

**(5) Trust banks (30 : 42.9%)**

(6) Life insurance or casual insurance companies (16 : 22.9%)

(7) Loan guarantee companies (19 : 27.1%)

(8) Other (1 : 1.4%)

Trust banks and government were the most numerous and second most numerous answers. They are viewed as guarantors with a lot of credit and the know-how for estimating risk.

Q16. Is a bond rating institute required?

**(1) Yes (47 : 67.1%)**

**(2) No (16 : 22.9%)**

Two-thirds of the firms answered that bond rating institutes were required. The bond rating institutes are necessary for developing and expanding the market in terms of not only the amount of the transaction, but also the attribution of market participants. Impartial and objective criteria for investment decision by a third party will be an advantage for both sellers and buyers. It would be very difficult and take a lot of time for investors, especially individuals, to evaluate the risks and quality of real estate products.

The firms which answered that bond rating institutes would not be necessary saw the value of the real estate, protecting investors. They would be guaranteed cash flow from the products by reliable institutions.

Q17. Who are likely to be the intermediaries in the secondary market?

**(1) Securities companies (45 : 64.3%)**

**(2) Banks (19 : 27.1%)**

**(3) Long-term credit banks (13 : 18.6%)**

**(4) Trust banks (40 : 57.1%)**

(5) Real estate corporations (27 : 38.6%)

(6) Other (2 : 2.9%)

(7) Other (0 : 0.0%)

Two-thirds of the firms hold a view that security companies will be intermediaries in the secondary market. This intermediary already plays one of the most important roles in the stock market, the biggest circulation market in Japan. The second choice was trust banks. Trust banks have branches nation wide and have a lot of experience in real estate business. The third most popular answer was real estate companies. Because the real estate companies will be the supplier of real estate projects, they would have some affects on the secondary market of the real estate products.

Q18. What actions will be required to promote secondary market activities?

(1) Preparation of a legal system (51 : 72.9%)

(2) Preparation of discloser system for projects (26 : 37.1%)

(3) Establishment of guarantor (36 : 51.4%)

(4) Increase in the amount of transactions (3 : 4.3%)

(5) Other (0 : 0.0%)

(6) Comment

Establishment of bond rating institution

Preparation of taxation system

Deregulation of the Ministry of Finance

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Three-fourths of the firms answered that preparation of a legal system will be required. Presently there are no laws regarding securitization of real estate. In order to develop the structure of securitization of real estate, the amendment of established laws will be required.

On the other hand, more firms placed guarantors over discloser systems in importance. Most Japanese investors put importance on the guarantee by a reliable third parties.

III. THE FOLLOWING QUESTIONS CONCERN THE INTRODUCTION OF REITS INTO JAPAN.

Q19. Do you think introducing REITs into Japan will be necessary?

- (1) Yes, it is necessary. (40 : 57.1%)
  - (2) No, it is not necessary. (6 : 8.6%)
  - (3) I have no idea. (20 : 28.6%)
- 

Most firms think REITs will expand their business chances. There are many firms which do not understand REITs.

REITs are a new concept in Japan and this concept has not been widely introduced in Japan.

Q20. What do you think merits the introducing of REITs into Japan?

- (1) **Ease of raising capital (51 : 72.9%)**
- (2) Increase in a supply of land (15 : 21.4%)
- (3) Holding down land price (7 : 10.0%)
- (4) Other (8 : 11.4%)
- (5) Other (0 : 0.0%)

---

Most firms mentioned the effects on the financial aspects of raising capital more easily, not the effects on land supply or land prices.

Q21. What are the attractions of REITs?

- (1) **High negotiability (32 : 45.7%)**
- (2) Non-double taxation (20 : 28.6%)
- (3) Depreciation effect (27 : 38.6%)
- (4) Steady cash flow (23 : 32.9%)
- (5) **Capital Gain (29 : 41.4%)**
- (6) Other (1 : 1.4%)
- (7) Other (0 : 0.0%)



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If and when REITs are introduced into Japan, the attraction of capital gains and high negotiability will mean more than depreciation merit or income gains.

Q22. What are the restrictions to introducing REITs into Japan?

- (1) Low cash-flow (32 : 45.7%)
- (2) **Current legal system (27 : 38.6%)**
- (3) Current taxation system (25 : 35.7%)
- (4) Other (4 : 5.7%)

---

Low-cash flow was the most popular answer. Regarding legal aspects, many firms pointed out the need to establish conduits other than trusts, to give more recognition to REITs, and to make clear what the industry role should be in dealing with REITs. Two taxation problems were pointed out. One is whether non-double taxation will be applied for securitization. The other is what type of tax the profits from securitized products should be recognized.

Q23. What aspect(s) of the real estate market in Japan are best suited to REITs?

- (1) Low risk development projects in Japan (23 : 32.9%)
  - (2) well management property (18 : 25.7%)
  - (3) Preference of investors for real estate as a safe investment (42 : 60.0%)
  - (4) Other (4 : 5.7%)
  - (5) Other (1 : 1.4%)
- 

The most popular answer was the preference of investors for real estate products.

Q24. What would be your role(s) in the REITs, if they were introduced?

- (1) Developer (28 : 40.0%)
  - (2) Originator (26 : 37.1%)
  - (3) Management (16 : 22.9%)
  - (4) Investor (12 : 17.1%)
  - (5) Intermediary in the secondary market (20 : 28.6%)
  - (6) Guarantor (4 : 5.7%)
  - (7) Other (1 : 1.4%)
  - (8) other (0 : 0.0%)
- 

Most firms want to participate in the REIT business as suppliers of real estate projects, such as developers or originators.

IV. THE FOLLOWING QUESTIONS PERTAIN TO YOUR OWN ACTIVITY IN  
OVERSEAS REAL ESTATE AND THE EXTENT TO WHICH SECURITIZATION  
COULD EFFECT ON YOUR CURRENT BUSINESS PLANS

Q25. Are you interested in overseas real estate investments?

- (1) **Already investing overseas (42 : 60.0%)**
- (2) Reviewing the possibility of investing (8 : 11.4%)
- (3) Interest only at this time (11 : 15.7%)
- (4) No interest in plans to invest overseas (7 : 10.0%)

---

More than half of firms have already invest overseas.

Q26. Where are the your overseas investments?

- (1) United States
  - a. **East Coast (37 : 52.9%)**
  - b. **West Coast (35 : 50.0%)**
  - c. Central Area (13 : 18.6%)
- (2) Canada (3 : 4.3%)
- (3) Europe
  - a. United Kingdom (9 : 12.9%)
  - b. France (5 : 7.1%)
  - c. West Germany (4 : 5.7%)

d. Switzerland (1 : 1.4%)

e. Others (2 : 2.9%)

**(4) Australia (22 : 31.4%)**

(5) Asia (7 : 10.0%)

(6) South America (0 : 0.0%)

(7) Africa (0 : 0.0%)

(8) Others (4 : 5.7%)

In what types of properties have you invested or will you invest?

**(1) A. Urban Type (40 : 57.1%)**

B. Suburban Type (23 : 32.9%)

**(2) a. Office Building (41 : 58.6%)**

b. Hotel (27 : 38.6%)

c. Condominium (19 : 27.1%)

d. Industrial Park (5 : 7.1%)

e. Shopping Center (15 : 21.4%)

f. Residential Lots (7 : 10.0%)

g. Resort Area (14 : 20.0%)

h. Others (6 : 8.6%)

**(3) a. Purchase (21 : 30.0%)**

b. Development (19 : 27.1%)

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Investments have been concentrated in the United States, on both the east coast and west coast. The second most popular country is Australia. Firms prefer to investment in urban areas, but half of firms which answered this question have invested in suburban area. The most popular type of investment is office buildings, 83.7% of the firms investing overseas have already invested in office buildings. The second and third most popular investments were hotels (55.1%) and condominiums (38.8%).

Q27. How many projects have you invested in?

- (1) One (6 : 8.6%)
- (2) Tow to Four (17 : 24.3%)
- (3) Five to Nine (9 : 12.9%)
- (4) 10 to 20 (7 : 10.0%)
- (5) More than 20 (9 : 12.9%)

---

Most firms have already done two to four investments.

Q27a. How much have you invested to date? (40 answers)

- (1) One project : 1 - 900 (Av. 75.1) 100 Million Yen
- (2) One year total : 5 - 1,800 (Av. 268.2) 100 Million Yen

(3) Total : 3 - 2,000 (Av. 364.8) 100 Million Yen

Q28. What do you think would be the effect of securitization on your global strategy?

(1) Would liquidate properties? (12 : 17.1%)

How much of scale?

(The number : 1 - 7, Av. 2.1, 6 answers)

(The amount : 250 - 40,000 Million Yen)

(2) Would provide new products for your investment? (17 : 24.3%)

**(3) Develop the projects to sell as securitized properties**  
**(24 : 34.3%)**

(4) Other (10 : 14.3%)

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Most firms plan to develop real estate projects for securitization overseas. Even though there is great demand for such securitized products among Japanese investors, it is currently difficult to develop that type of products in Japan.

## Appendix II

I interviewed the following individuals. This thesis reflects their opinions to great extent.

|                     |                                          |
|---------------------|------------------------------------------|
| Fukuda, Sumio       | Haseko Corporation                       |
| Kaneko, Eisaku      | The Nippon Credit Bank, Ltd.             |
| Kato, Nobuyuki      | Sumitomo Trust & Banking Co., Ltd.       |
| Kato, Yoshimasa     | Mitsui Real Estate Development Co., Ltd. |
| Kawamoto, Akira     | Mitsui Real Estate Development Co., Ltd. |
| Kohari, Yoshiaki    | The Bank of Tokyo, Ltd.                  |
| Komiya, Hiroaki     | The Japan Long Term Credit Bank, Ltd.    |
| Mitsuhashi, Noriko  | Ministry of Construction                 |
| Okui, Hideo         | Trust Bank Association                   |
| Ono, Hideyuki       | Haseko Corporation                       |
| Orihara, Makoto     | Trust Bank Association                   |
| Takahashi, Masahiko | Mitsui Real Estate Sales Co., Ltd.       |
| Takashino, Yoshio   | Daiwa Securities Co. Ltd.                |
| Takeishi, Susumu    | Daiwa Securities Co. Ltd.                |
| Tanaka, Hiroshi     | Mitsui Real Estate Development Co., Ltd. |
| Wada, Keiseki       | The Nomura Securities Co., Ltd.          |
| Yagi, Hitoshi       | The Nippon Credit Bank, Ltd.             |
| Yanagihara, Hideo   | Nihon Kokuyu Tetsudo Seisanjigyodan      |

### Appendix III

I received responses from the following individuals. This thesis reflects their opinions to a great extent.

|                               |                      |
|-------------------------------|----------------------|
| Abe, Katsu                    | Aiba, Yasuo          |
| Chikami, Nobuo                | Ebihara, Masatake    |
| Fukuda, Sumio                 | Hayashi, Koichiro    |
| Hayashi, Mitsuo               | Hayashi, Yoshiki     |
| Higashi, Kazuo                | Honma, Yoshisuke     |
| Ichikawa, Tetsuo              | Inoue, Yoshiaki      |
| Iruta, Tsuneo                 | Ito, Hisatomo        |
| Ito, Yukio                    | Iwama, Katsuyuki     |
| Izawa, kenichi                | Kamori, Tetsuya      |
| Kanehira, Shigeo              | Kaneya, Masanori     |
| Kawanuma, Isao                | Kikuchi, Yasuhide    |
| Kimura, Takehiko              | Kosome, Yoshiaki     |
| Kubo, Sadao                   | Matsumura, Masatoshi |
| Matsushita, Shunichi          | Miyamoto, Hajime     |
| Miyanaga, Kazumi              | Muraoka, shunichi    |
| Nagamine, Jun                 | Nagano, Yuzo         |
| Nagao, Kazuyoshi              | Nakajima, Kazuhiro   |
| Nishio, Yoshihiro             | Nonoyama, Atsushi    |
| Numano, Kenji                 | Ochiai, Seigo        |
| Okazaki, Hiroshi              | Ono, Shoji           |
| Sakashita, Masahiro           | Sakota, tsuneo       |
| Sato, Itaru                   | Sato, Yuzo           |
| Senboshi, Hiroshi             | Shimomura, Takehito  |
| Sugimori, Teruo               | Sugiyama, Hideki     |
| Suzuki, Jun                   | Suzuki, Masami       |
| Suzuki, Toshio                | Tabata, Hideki       |
| Takahashi, Masamitsu          | Takashino, Yoshio    |
| Takei, Kenji                  | Takimoto, Hiroyuki   |
| Tanaka, Junichi               | Taniya, Akito        |
| Tokita, Katsuji               | Tokumoto, Junichi    |
| Town Kaihatsu Kabushikigaisha | Tsuden, Iemasa       |
| Tsukakoshi, Hideo             | Usami, Masahiko      |
| Ushio, Mamoru                 | Wada, Keiseki        |
| Watanabe, Akihito             | Yano, masayuki       |
| Yokomizo, Yoshiaki            | Yomada, Takashi      |